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WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 5/25/84 **Number:** ----- **Due By:** -----

Subject: Cabinet Council on Economic Affairs Minutes:

May 3, 8, 10, & 15, 1984

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>	Mc Farlane	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>	Svahn	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
<u>CIA</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input checked="" type="checkbox"/>
USTR	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input type="checkbox"/>	<input checked="" type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/	<input type="checkbox"/>	<input checked="" type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Simmons	<input type="checkbox"/>	<input checked="" type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input checked="" type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	CCMA/Bledsoe	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/	<input type="checkbox"/>	<input checked="" type="checkbox"/>

REMARKS: Attached for your information are the minutes of the following CCEA meetings:

May 3, 1984
May 8, 1984
May 10, 1984
May 15, 1984

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☐ Katherine Anderson
☒ Tom Gibson

Associate Director
Office of Cabinet Affairs
456-2800

☐ Don Clarey
☐ Larry Herbolzheimer

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Executive Registry

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MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

May 3, 1984
8:45 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Baldrige, Svahn, Porter, Wright, Abrams, Benjamin, Boggs, Healey, Lyng, Niskanen, Poole, Sanders, Ballentine, Cicconi, Clarey, Donatelli, Gibson, Hays, Neal, Platt, Li, and Ms. Risque.

1. Report of the Working Group on Financial Condition of Utilities

Mr. Healey presented a report from the Working Group on the Financial Condition of Utilities addressing the likely economic and legal consequences of utility bankruptcy filings. The report argued that in the event of a utility bankruptcy filing, utilities should be able to continue producing electricity in the short-term. However, the ability of utilities to provide electricity in the long-term is highly uncertain due to the interplay among the bankruptcy courts, State public utility commissions, and the Nuclear Regulatory Commission (NRC). The most complex issue would be a potential stalemate between a bankruptcy court and the State public utility commission since they may require the bankrupt utility to undertake conflicting actions. Other issues might include whether a bankrupt utility can retain its NRC license and the possibility that municipal utilities may have to file for bankruptcy under Chapter 9 of the Bankruptcy Code.

Mr. Healey discussed the implications of potential Federal government liability due to Rural Electrification Administration (REA) loan guarantees to rural electric cooperatives involved in financing nuclear power plant construction costs. As of April 30, the REA was committed to guarantee \$9.7 billion of cooperative debt for constructing nuclear plants, of which \$6.1 billion has already been advanced. Bankruptcy trustees apparently can claim only advanced commitments.

The Council discussed recent Congressional attempts to assist the Long Island Lighting Company (LILCO) by authorizing industrial revenue bonds for LILCO that could cost up to \$150 million in lost revenues. The Council discussed the regulatory factors delaying completion of the LILCO facilities.

Minutes
Cabinet Council of Economic Affairs
May 3, 1984
Page two

The REA is expected to make decisions in the next 30-60 days on loan guarantee requests for financing nuclear plant construction, decisions which may be perceived as a precedent for Federal responses to bailout requests by investor-owned and municipal utilities. The Department of Agriculture requested the Working Group to develop policy guidance on how the REA should handle such loan guarantee requests.

2. Report of the Working Group on Federal Credit Policy

Mr. Ballentine presented a report from the Working Group on Federal Credit Policy, reviewing legislation that would expand the secondary market for loans guaranteed by the Small Business Administration (SBA). The report noted that the vast majority of small businesses obtain financing without Federal assistance, that half of SBA credit is provided to wholesalers and retailers, and that the secondary market for SBA-guaranteed loans is relatively small, accounting for only 20 percent of the annual volume of guaranteed loans qualifying for the secondary market.

SBA believes that the secondary market is limited by the following factors:

1. The SBA loan guarantees are not explicitly backed by the "full faith and credit" of the United States;
2. The current SBA guarantee does not provide for timely payment of principal and interest; and
3. SBA does not have explicit statutory authority to promote or broker transactions in the secondary market.

Both the House and Senate Small Business Committees are considering legislation, H.R. 4773 and S. 2375, that would address each of the concerns cited by SBA and thus expand the secondary market for SBA-guaranteed loans. Mr. Ballentine presented for Council decision three options:

1. Oppose H.R. 4773 and S. 2375;
2. Support H.R. 4773 and S. 2375; or
3. Support the legislation if it required loans to be sold to the Federal Financing Bank (FFB) and charged borrowers for the additional FFB subsidy.

The Council discussed the effect of the legislation on encouraging the development of a true private secondary market. It noted that the legislation would not affect the degree of small business risk held by private lenders.

Minutes
Cabinet Council on Economic Affairs
May 3, 1984
Page three

The Council overwhelmingly agreed to recommend that the Administration oppose the legislation.

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

May 8, 1984
8:45 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Baldrige, Block, Pierce, Feldstein, Porter, Wright, Burnley, Ford, Baroody, Cicconi, Gibson, Hays, McConnell, Neal, Newman, Platt, Verstandig, and Li, Ms. McLaughlin, Ms. Whittlesey, Ms. Horner, Ms. Koch, and Ms. Utgoff.

1. President's National Urban Policy Report

Ms. Koch, Deputy Under Secretary of Housing and Urban Development (HUD) for Intergovernmental Relations, reviewed the final draft of the President's National Urban Policy Report. The report outlines the President's urban policy emphasizing that the Administration has ushered in a new era of intergovernmental relations and highlighting a variety of Administration initiatives, including enterprise zones, improved targeting of assistance to the needy, and additional infrastructure funding. The report also reviews the Administration's record on the following issues:

1. Economic conditions in the cities and the effects of Federal, State, and local programs on urban economic growth;
2. Urban social problems such as crime, concerns of the needy, and educational quality; and
3. Urban physical environmental issues such as housing, infrastructure, and environmental quality.

Ms. Koch reported that HUD has worked with all interested departments in preparing the report. In addition, Secretary Pierce established a resource group comprising state legislators, mayors, and other State and local government officials to provide input into the report. The resource group helped structure the outline and reviewed the overview and a detailed outline of the report.

Council members recommended that the report:

1. Discuss the effectiveness of the Job Training Partnership Act (JTPA) thus far. Since tentative evaluations of JTPA will not be ready until the end of June, the Report will not include any definitive evidence of JTPA effectiveness.

Cabinet Council on Economic Affairs
Minutes
May 8, 1984
Page two

2. Present the Administration's position on tax exempt municipal financing and industrial development bonds.
3. Discuss the Administration's position on legislation that would provide antitrust immunity to municipal officials.
4. Reflect more accurately the progress on enterprise zone legislation. The Senate tax bill going to conference this week includes a provision authorizing enterprise zones. There is a good chance that the House may accept enterprise zones as well. The Council agreed that the Report should cite the successful State efforts to promote enterprise zones.

The Council discussed the issue of when the Report should be released agreeing that it should be submitted to Congress promptly after agency comments are fully incorporated into the Report.

Secretary Regan asked that Mr. Porter coordinate incorporating the Council's suggestions into the Report.

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

May 10, 1984
10:00 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Baldrige, Pierce, Brock, Feldstein, Porter, Dam, Wallis, Wright, Ford, Lyng, Ballentine, Barody, Cicconi, Gibson, Neal, Niles, Rhodes, and Li, Ms. McLaughlin and Ms. Risque.

1. Economic Issues at OECD Ministerial

Under Secretary Wallis presented a scope paper reviewing the objectives, strategy, and key issues at the Organization for Economic Cooperation and Development (OECD) Ministerial on May 17-18 in Paris. The U.S. delegation will include Secretaries Regan and Baldrige, U.S. Trade Representative Brock, and Deputy Secretary Dam.

The major U.S. objectives for the Ministerial are twofold: 1) to strengthen optimism that the OECD governments are acting to strengthen and broaden world economic recovery; and 2) to help pave the way for a successful outcome at the London Economic Summit.

There will be four major issues addressed at the Ministerial:

1. Finance, Trade, and Development. The U.S. will argue that the international debt strategy being pursued through the International Monetary Fund is a medium-term strategy that is working. The debt service problems of less developed countries (LDC) can also be alleviated by open markets in OECD countries and increased private direct investment. The U.S., however, has reservations about expanding OECD contacts with LDC's unless they involve increasing private direct investment.
2. International Trade. The U.S. shares and supports the goals of the OECD Secretary General on the subjects of dismantling trade barriers and preparing for a new round of negotiations. The U.S. will emphasize the need for an early start on thorough preparations for a new trade round.
3. International Investment and Multinational Enterprises. Other countries may be expected to press the U.S. on the issue of unitary taxation.

Minutes
Cabinet Council on Economic Affairs
May 10, 1984
Page two

4. Flexible Adjustment in a Changing World. The U.S. will emphasize the need to pursue sound and steady macroeconomic policies, reduce rigidities in labor and capital markets, reduce the size of the public sector and level of government involvement in the economy, and expand LDC access to the markets of OECD countries.

The Council discussed several issues, including: 1) the progress of the Working Group on Unitary Taxation, noting that the Working Group has reached an oral agreement that should satisfy the concerns of other countries; 2) potential criticism at the Ministerial of rising interest rates; 3) the value of privately complimenting the French for pursuing positive structural adjustment policies, particularly in the steel industry; and 4) successors to the OECD Secretary General and International Energy Agency Director General.

MINUTES

CABINET COUNCIL ON ECONOMIC AFFAIRS

May 15, 1984
8:45 a.m.
Roosevelt Room

Attendees: Mssrs. Regan , Porter, Abrams, Burnley, Ford, Lighthizer, Wright, Cicconi, Breedon, Haraf, Healey, Margulies, and Neal, Ms. McLaughlin, Ms. Whittlesey, Ms. Horner, and Ms. McCaffrey.

1. Report of the Working Group on Financial Institutions Reform

Assistant Secretary Healey presented the recommendations of the Working Group on Financial Institutions Reform regarding legislation proposed by the Federal Deposit Insurance Corporation (FDIC) to strengthen the FDIC's control over the Federal deposit insurance system. The FDIC proposals are contained in two bills: the revised Federal Deposit Insurance Improvement Act of 1983 (FDIIA) and a bill giving the FDIC statutory authority to impose a cap on the volume of brokered deposits held by insured deposit institutions. The Working Group requested that the Cabinet Council review several of the controversial provisions of the FDIC legislation because the Congress may address this legislation before the Council has completed its comprehensive review of the deposit insurance system.

The Federal Deposit Insurance Improvement Act

Mr. Healey stated that FDIIA contains three major provisions requiring Cabinet Council policy direction: risk related rebates; enhanced FDIC enforcement powers; and categories of deposits eligible for insurance.

1. Risk Related Rebates: The FDIC currently charges insured banks a standard deposit insurance premium, part of which is rebated annually. Under the provisions of the FDIIA, rebates would be determined by the degree of risk a institution poses to the Federal deposit insurance system. Because rebates currently represent as little as 2 percent of a bank's before tax income, this measure would have a modest effect in making banks more risk averse. However, public disclosure of the FDIC's objective criteria for establishing risk ratings could enhance the effect of risk related rebates by making depositors more aware of a bank's financial status and providing an incentive for better bank management.

Mr. Breedon noted that the Vice President's Task Force on the Regulation of Financial Services recommended providing even broader authority to make deposit insurance premiums risk related.

Minutes
Cabinet Council on Economic Affairs
May 15, 1984
Page two

2. Enforcement Powers: Mr. Healey stated that the FDIIA would give the FDIC cease-and-desist power over bank management practices, a less drastic regulatory alternative to the agency's current power to withdraw deposit insurance coverage from problem banks. The Cabinet Council discussion focused upon concern that such enhanced FDIC enforcement power would overlap the authority of other financial regulatory agencies. Several members expressed a preference for addressing the issue of enforcement powers as a part of comprehensive banking reform legislation, rather than in a piecemeal manner.

3. Categories of Deposits: Mr. Healey explained that the FDIIA would give the FDIC discretionary authority to establish categories of depositors and deny Federal insurance to particular categories of depositors. While the FDIIA does not specify which categories would be ineligible for deposit insurance, Mr. Healey indicated they may include: deposits by other depository institutions, government agencies, and brokered deposits.

The Cabinet Council discussion focused upon: the FDIC's concern that particular categories of deposits are routinely deposited in troubled institutions; the questions of how large-depositors, e.g. government agencies, are able to insure accounts of more than \$100,000 and what the costs to the Federal deposit insurance system have been; and the broader question of what is the proper investment policy for government agencies not required by statute to invest trustee funds solely in government securities.

The Cabinet Council supported the Working Group's recommendations that the Administration request: (1) that any legislation be more specific regarding objective criteria for establishing a bank's risk classification, and disclose to the public the risk classification and the criteria used in determining those classifications; and (2) that FDIIA provisions giving the FDIC greater enforcement authority be deferred until such time as comprehensive banking regulatory reform legislation is considered.

The Council requested that the Working Group examine the broad issue of the investment policies of government agencies and that this study involve all affected departments and agencies. The Cabinet Council also agreed that the Administration has no position at this time regarding FDIIA provisions establishing categories of depositors eligible for Federal deposit insurance until the Working Group has finished its report.

Brokered Deposits

Mr. Healey stated that Congress requested the FDIC to draft legislation statutorily setting limits on the volume of brokered

Mintues
Cabinet Council on Economic Affairs
May 15, 1984
Page three

deposits held by insured depository institutions, as an alternative to the recent brokered deposit regulations. In response, the FDIC drafted a bill that would give the FDIC and FHLBB discretionary authority to cap the volume of brokered deposits held in insured banks and thrifts.

The Cabinet Council agreed to support the proposed legislation to set a "cap" on the amount of brokered deposits that a healthy depository institution can accept, and that the Congress should set a specific "cap" such as provided for in the Comptroller of the Currency's draft legislation.